Chattanooga Fire and Police Pension Fund Task Force Meeting
Presentation of Public Financial Management, Inc.
September 9, 2013

Fact Sheet

The purpose of Public Financial Management's (PFM's) initial presentation to the Task Force is to provide members with a high-level overview of pension issues both nationally and in Chattanooga as well as to give them additional information on approaches other jurisdictions have taken to address these issues. The presentation will be made by Vijay Kapoor, PFM's Director of Workforce Consulting, from the firm's Philadelphia office.

In the time between the initial and the next Task Force meeting, Kapoor will ask Task Force members to provide him with their initial ideas on options for a consensus agreement that they might consider. At the next Task Force meeting, PFM will make another presentation which will include:

- A historical background on Chattanooga Fire and Police Pension Fund (CFPPF) benefits, City contributions, actuarial assumptions, and funding levels
- Comparison of current CFPPF plan benefits to those of other cities
- Outline of some of the initial ideas from Task Force members
- PFM's high-level thoughts on possible approaches toward a consensus agreement

The following are some of the high-level points Kapoor will make in the initial September 9th presentation.

National Retiree Benefit Funding Pressures

- Governments across the country, not just Chattanooga, have realized that they must address their pension and retiree health care liabilities before they get worse. To get a sense of how large these liabilities are nationwide, the Pew Center on the States reported that state retirement systems nationally faced a $1.38 trillion funding gap between benefits promised and their respective pension or retiree health care plan assets in FY2010.
- Since the "Great Recession" of 2008, almost every state in the United States – including Tennessee – has adopted some type of retirement benefit reforms. The most common reforms included: increasing employee contributions, raising the retirement age and years of service, reducing the formula to determine the benefits, and lowering or eliminating post-retirement cost-of-living adjustments. For local government employees hired after July 1, 2012, in the Tennessee Consolidated Retirement System (TCRS), the local government may freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively.

Pension Basics

- Chattanooga police officers and fire fighters do not pay into nor will they receive Social Security benefits as a result of their City service. This saves both the employee and the City from each having to contribute 6.2% of the employee's gross compensation in taxes, but does not entitle the employee to Social Security payments when he or she retires.

Chattanooga's Challenge

- Chattanooga is not Detroit. However, based on PFM's initial review, Kapoor has concerns with the CFPPF's current funding status. Given the size of the current unfunded liabilities compared to available resources, Kapoor believes that a comprehensive solution is needed to ensure the long-term health of the fund to pay benefits, for the City to be able to recruit and retain a talented workforce, to be fair to taxpayers, and to maintain the City's fiscal health and its services
    - As of the January 1, 2013, actuarial valuation report, the CFPPF is 63.3% funded on an actuarial basis and 51.8% funded using the actual market value of the plan's assets. Since 2000, the CFPPF's funded status has dropped from 107.2% to 63.3%.
    - The CFPPF's long-range objective should be to have the fund be 100% funded with no unfunded liability
    - The CFPPF's unfunded liabilities are currently $149.7 million, an amount that is more than 71% of the City's FY13 budget
- Credit rating agencies are now placing more emphasis on cities' abilities to manage their pension liabilities. A higher credit rating ensures that a city has a continued ability to borrow money at lower rates
    - Because plan actuarial assumptions vary widely across plans, the credit rating agency Moody's has developed its own methodology to value pension plan liabilities when it rates a government. Apply the Moody's methodology to the CFPPF plan, the funded ratio drops from 63.3% to 32.9%

Pension Bond Overview

- During some of PFM's initial meetings with stakeholders, Kapoor was asked about using pension bonds to address the unfunded liability. To respond to some of those questions, Kapoor will provide an overview of how pension bonds work, their benefits and their risks. PFM is neither recommending for nor against their use.
- A pension bond is where a government borrows money using taxable bonds and deposits that money into a pension fund to be invested. A pension bond will be successful only where the investment returns exceed the borrowing costs.

Lexington, KY Case Study

- Earlier this year, Kapoor assisted a public task force in the City of Lexington, KY, in a situation very similar to Chattanooga's where each city had a separate police and fire pension plan that had similar unfunded liabilities (Lexington – 63.9% and Chattanooga – 63.3%) and where neither city's police nor fire fighters were in Social Security.
- Kapoor was able to work with the parties to achieve a consensus solution which included increased city contributions as well as benefit changes – including a change to the cost-of-living benefit for current and future retirees. These changes cut the unfunded liability by $134,846,447 or 45% and did not require the use of pension bonds.